



Grupo LALA

Third Quarter 2018

Earnings Results Conference Call

October 23, 2018





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AGENDA

1. CEO FIRST 45 DAYS: KEY TAKEAWAYS

2. QUARTER HIGHLIGHTS

3. FINANCIAL RESULTS

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CEO FIRST 45 DAYS: KEY TAKEAWAYS

FOCUS POINTS FOR GRUPO LALA

- Nurture talent
- Focus on key markets
 - ↳ Increasing margins in Mexico is the name of the game
- Drive a virtuous cycle
 - ↳ Invest in growth
 - ↳ Optimize costs (ZBB* & Procurement)
 - ↳ Expand margins
- Capital allocation
- Disclose regions, volume and market shares



*Zero Based Budgeting

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CEO FIRST 45 DAYS: KEY TAKEAWAYS

BUSINESS OPPORTUNITIES - MEXICO

- Design structure for growth
- Exploit unique distribution advantage
- Elevate execution standards
- Enhance innovation
- Address revenue management
- Inspiring corporate culture



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CEO FIRST 45 DAYS: KEY TAKEAWAYS

BUSINESS OPPORTUNITIES - BRAZIL

- Biggest opportunity market in LatAm
- Fastest growing Dairy brand in Brazil
- Intellectual synergies being exported
- Engaging and powerful brand
- Competing in value added Dairy
- Strong geographical footprint



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CEO FIRST 45 DAYS: KEY TAKEAWAYS

BUSINESS OPPORTUNITIES - US & Central America

- Reverse the drags in the US and CAM
- Fit for purpose organization
- “Double hatting” org structure
- Disclosing CAM individually
- Positive EBITDA as of Q4’18 in US and CAM



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QUARTER HIGHLIGHTS

- a.** Mexico growing, margins still tight
- b.** Brazil confirming growth potential
- c.** Rightsizing U.S. for profitable growth
- d.** CAM: refocusing in key categories and geographies



MEXICO GROWING, MARGINS STILL TIGHT

Strong business fundamentals in place

- +4.6% sales growth driven by mix and increase in volume
- Premiumization strategy
- Market share leadership
- Leveraging on previous investments
- Price increase to partially mitigate energy and packaging inflation



Position in market & market share bps variation



MILK⁽¹⁾
+180 bps



YOGURT ⁽¹⁾
-30 bps



**PACKAGED
CHEESE ⁽¹⁾**
+160 bps

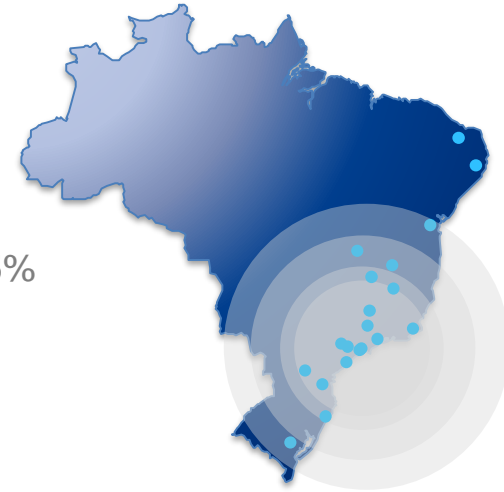


CREAM⁽¹⁾
+160 bps

BRAZIL CONFIRMING GROWTH POTENTIAL

Vigor: investing in historical branding campaign

- +10.3% sales growth in Reals, -8.1% in Pesos
- Expanding market share in every subcategory
- Consolidating & strengthening current footprint in Brazil
- Margin pressure after transport strike; unseasonal milk prices +25%
- Gradual price increase between August - October
- YoY +105 bps EBITDA margin expansion



Position in market & market share bps variation



**GREEK
YOGURT (1)**
+660 bps



YOGURT (1)
+80 bps



**SPREADABLE
CHEESE(1)**
+180 bps



**CREAM
CHEESE(1)**
+320 bps

RIGHTSIZING U.S. FOR PROFITABLE GROWTH

Growing business

- +3.6% sales growth in USD, +10.3% in Pesos

Fit for purpose organization: savings of +US \$6m FY19

- Start-up mindset
- Lean & agile structure and corporate mindset
- Growth focus management team: CEO internal CMO promotion

Optimizing supply chain: savings of +US \$2m FY19

- Colorado co-packing SLA in place, ongoing contracts negotiation
 - ↳ Capacity utilization increasing from 40% to >80% by year-end
- Promised Land co-manufactured in East Coast

Position in market & market share bps variation



**ADULT DRINKABLE
YOGURT⁽¹⁾
+80 bps**



**FLAVOURED
MILK⁽¹⁾
+70 bps**

CAM: REFOCUSING IN KEY CATEGORIES AND GEOGRAPHIES

Business topline

- -7.9% decrease in CAM sales (-55 million Pesos) due to Nicaragua political situation
- Guatemala record sales driven by Ice Cream, Yogurt, Cream and Milk Formula

Fit for purpose organization: savings of +US \$2m FY19

- Closing Panama corporate office
- Manage region from Guatemala: double hatting & management closer to market
- Appointed El Salvador distributor vs direct route to market

Increasing production capacity

- Additional Ice Cream capacity in Guatemala's new plant starting Q4'18
- Costa Rica's new plant for Q2'19 to compete in CAM's largest dairy market

Position in market & market share bps variation



MILK⁽¹⁾
-170 bps



YOGURT⁽¹⁾
-250 bps



Q3 2018 FINANCIALS



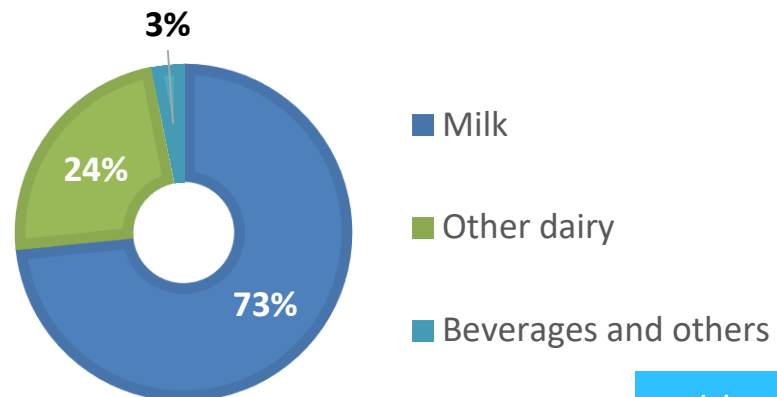


13.5% YoY INCREASE IN VOLUME

3M ended September 30, 2018

Volume by Segment	As Reported		
<i>KL⁽¹⁾ in millions</i>	Q3'17	Q3'18	Var. %
Milk	678	706	4.2%
Other dairy	143	226	58.5%
Beverages and others	27	30	10.3%
Total Volume	848	963	13.5%

Volume by Segment
As reported Q3 2018

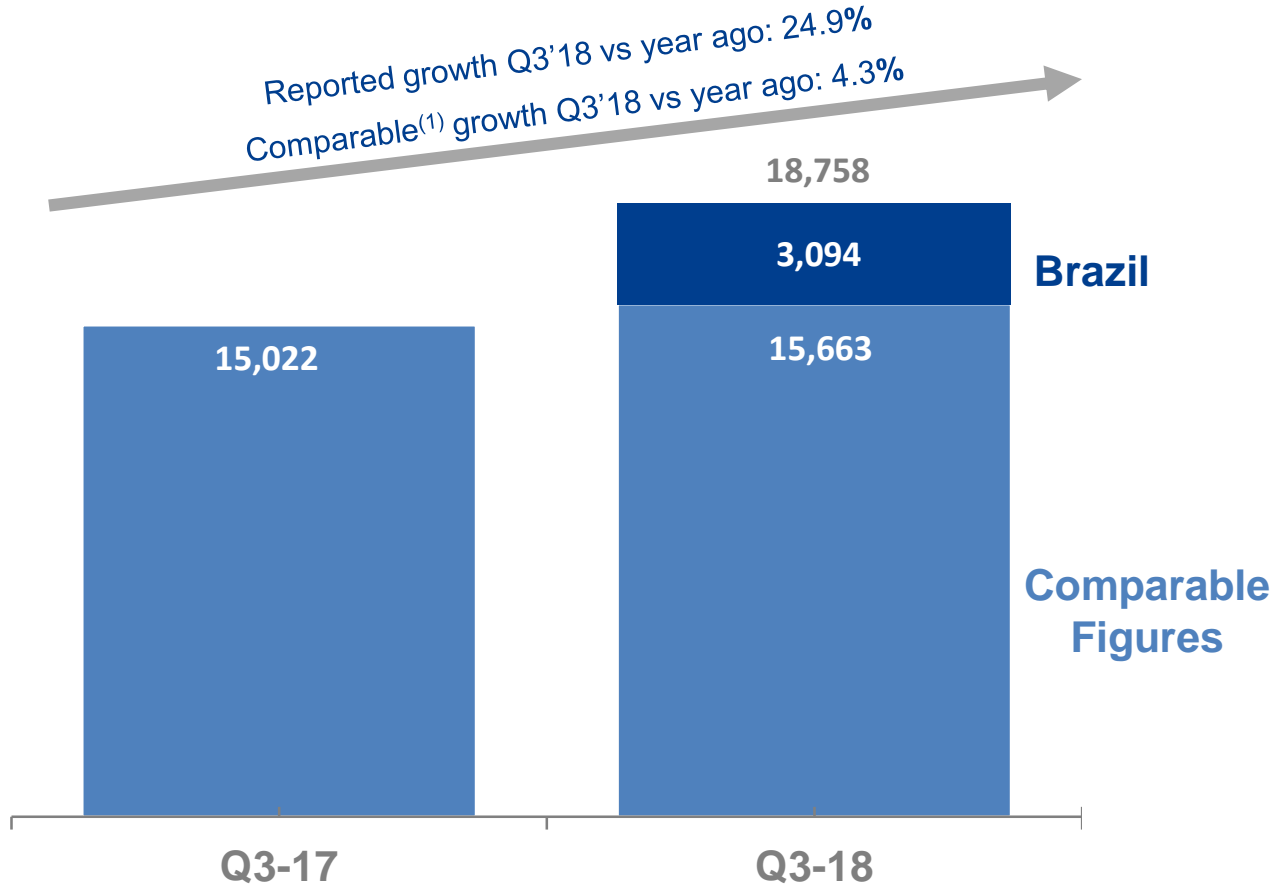


(1) KL: Volume measurement that is calculated by adding Kilos and Liters



24.9% YoY INCREASE IN REPORTED NET SALES

MXN \$ in millions



(1) Comparable is defined as a year-over-year comparison; the change in a given measure excluding the effects of Brazil acquisition in Q4 2017



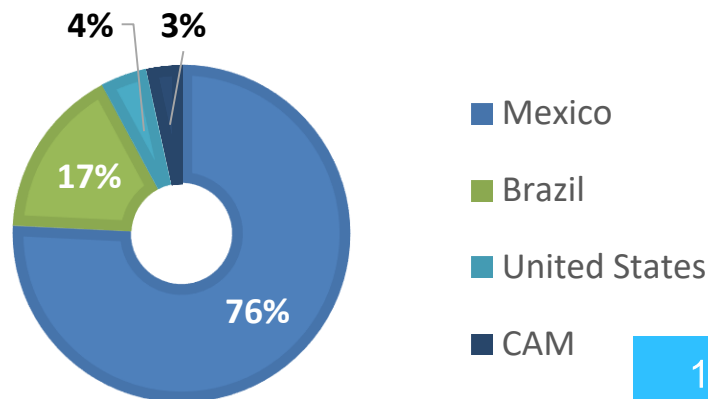
4.3% YoY INCREASE IN COMPARABLE NET SALES

3M ended September 30, 2018

Net Sales by Region	As Reported		
<i>MXN\$ in millions</i>	Q3'17	Q3'18	Var. %
Mexico	13,611	14,193	4.6%
Brazil	N.A.	3,095	N.A.
United States	749	826	10.3%
Central America	699	644	(7.9%)
Total Sales	15,022	18,758	24.9%

+10.3% sales growth in Reals,
 -8.1% in Pesos
 Not reported, acquisition made
 in Oct'17

Sales by Region
As reported Q3 2018

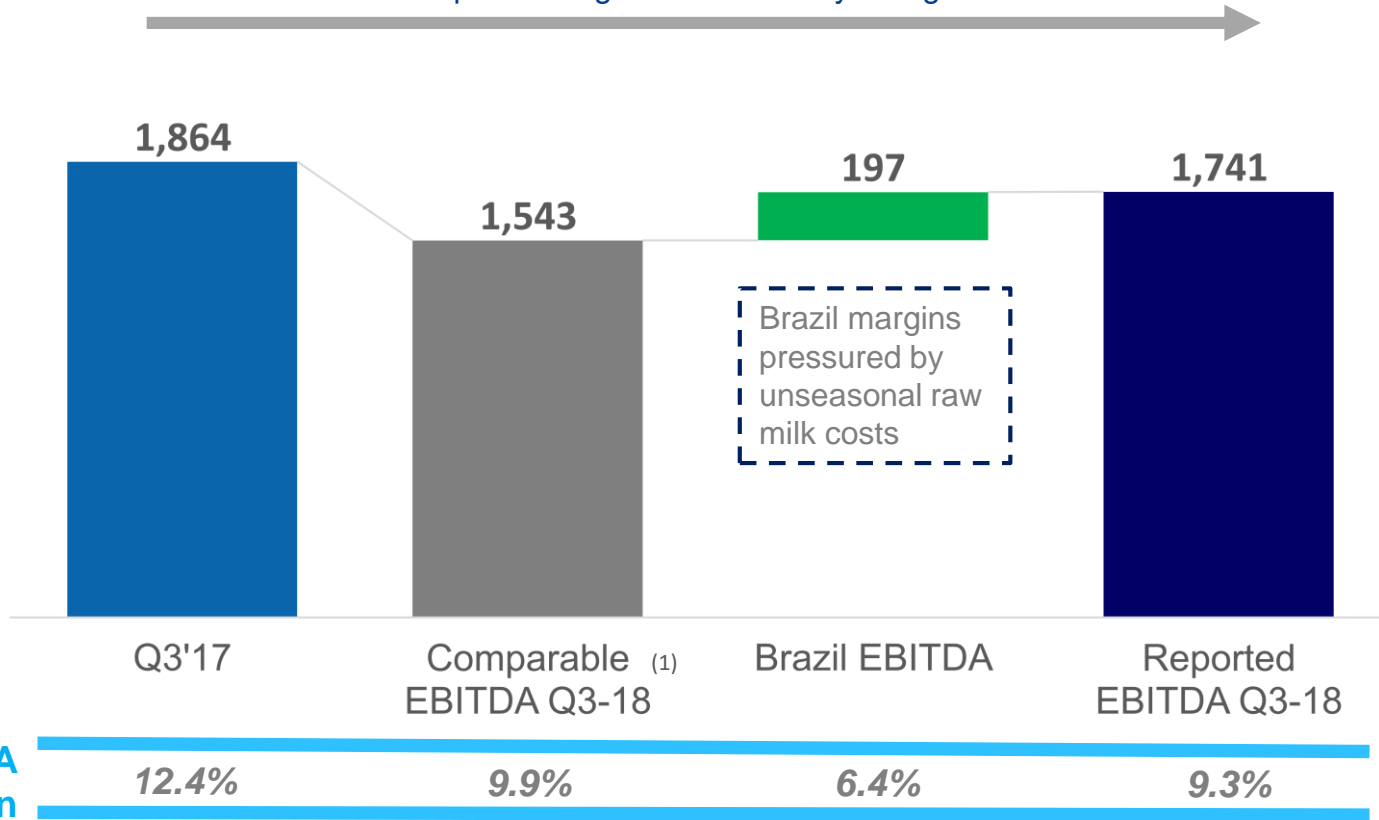




DECREASE IN COMPARABLE Q3 EBITDA DUE TO INFLATION AND ONE-OFF EXPENSES (1/2)

MXN\$ in millions

Reported growth Q3'18 vs year ago: -6.6%
Comparable⁽¹⁾ growth Q3'18 vs year ago: -17.2%



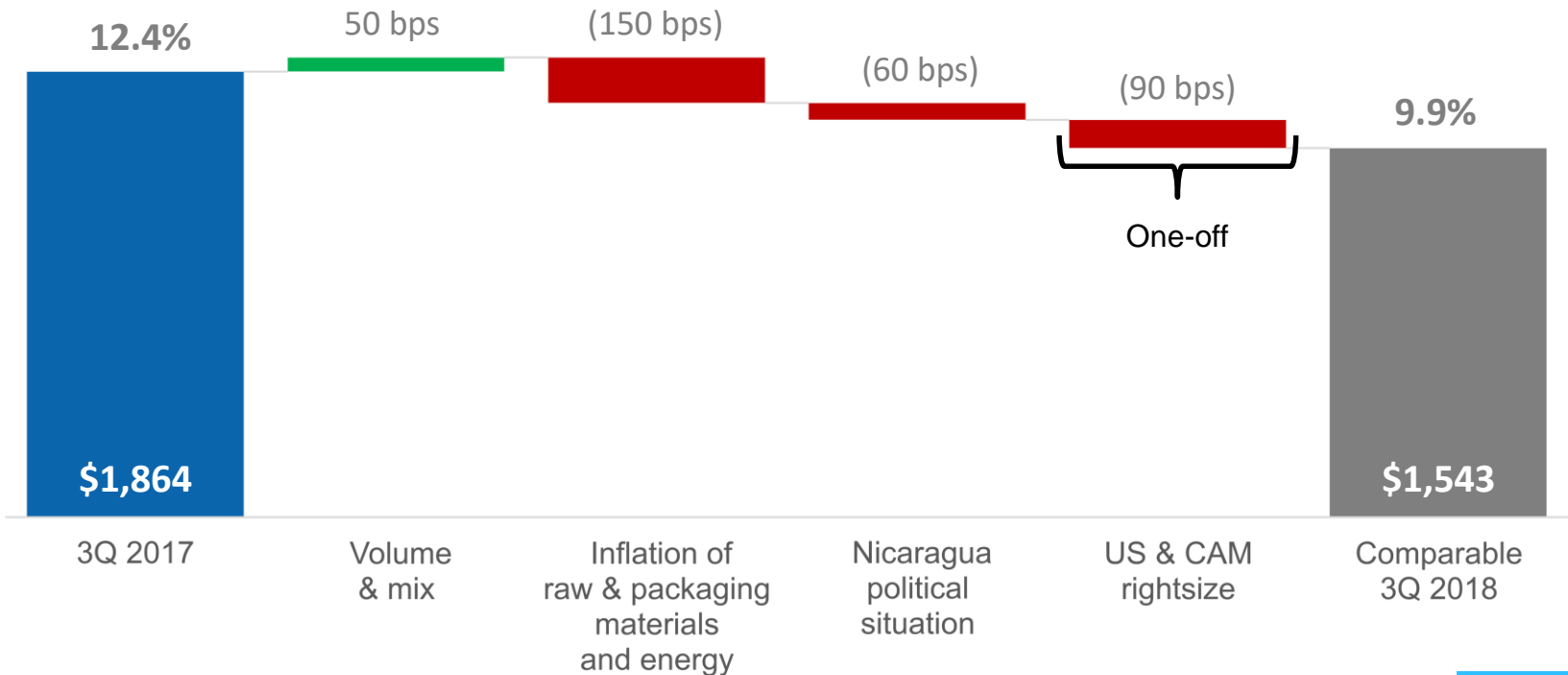
(1) Comparable is defined as the year-over-year comparison excluding the effects of LALA's Q4'17 acquisition of Vigor Alimentos in Brazil



DECREASE IN COMPARABLE Q3 EBITDA DUE TO INFLATION AND ONE-OFF EXPENSES (2/2)

YEAR-ON-YEAR CONTRACTION (bps)

3M ended September 30, 2018



* Company information, (bps) basis points



CONSOLIDATED Q3'18 EBITDA NEGATIVELY IMPACTED BY US & CAM RIGHTSIZING

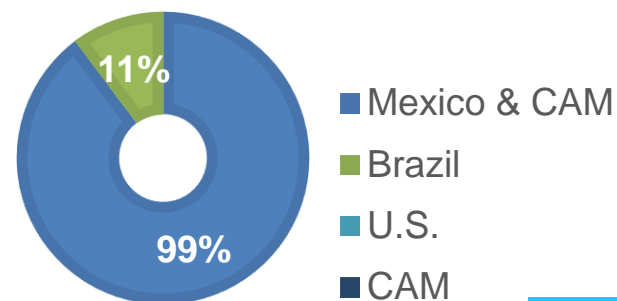
3M ended September 30, 2018

Excluding One-Offs*			
MXN\$ in millions	Q3'18	% Sales	Var. bps
Mexico	1,730	12.2%	(200)
Brazil	197	6.4%	N.A.
United States*	(54)	(6.5)%	+360
Central America*	(14)	(2.2)%	(480)
Total*	1,860	9.9%	(250)

Brazil margin expansion of +105 bps
Not reported, acquisition made in Oct'17

EBITDA As Reported			
MXN\$ in millions	Q3'18	% Sales	Var. bps
Mexico	1,730	12.2%	(200)
Brazil	197	6.4%	N.A.
United States	(158)	(19.1)%	(900)
Central America	(29)	(4.6)%	(720)
Total	1,741	9.3%	(310)

EBITDA by Region
As reported Q3 2018





17.2% YoY DECREASE IN COMPARABLE EBITDA

*Year on year comparison
3M ended September 30, 2018*

<i>MXN\$ in millions</i>	As Reported			Comparable ⁽¹⁾	
	Q3'17	Q3'18	Var. %	Q3'18	Var. %
Net Sales	15,022	18,758	24.9%	15,663	4.3%
Gross Profit	5,754	6,425	11.7%	5,582	(3.0)%
<i>% of sales</i>	38.3%	34.3%		35.6%	
Operating Income	1,427	1,157	(18.9)%	1,015	(28.8)%
<i>% of sales</i>	9.5%	6.2%		6.5%	
EBITDA	1,864	1,741	(6.6)%	1,543	(17.2)%
<i>% of sales</i>	12.4%	9.3%		9.9%	

(1) Comparable is defined as a year-over-year comparison excluding the effects of LALA's Q4'17 acquisition of Vigor Alimentos in Brazil.



FINANCING EXPENSES AND LOWER OPERATING INCOME REDUCED NET INCOME TO 216 MILLION PESOS

*Year on year comparison
3M ended September 30, 2018*

	As Reported		
<i>MXN\$ in millions</i>	Q3'17	Q3'18	Var. %
Operating income	1,429	1,157	(18.9)%
Financing expenses	(24)	673	N.A.
<i>% of sales</i>	<i>(0.2)%</i>	<i>3.6%</i>	
Net Income before taxes	1,452	482	(66.8)%
<i>% of sales</i>	<i>9.7%</i>	<i>2.6%</i>	
Taxes	445	266	(40.3)%
<i>Effective tax rate</i>	<i>30.6%</i>	<i>55.1%</i>	
Net Income	1,007	216	(78.5)%
<i>% of sales</i>	<i>6.7%</i>	<i>1.2%</i>	

- \$139 million peso one-time tax penalty due to differing criteria used by LALA (from those used by the Mexican authorities) for calculating 2011 and 2012 royalty transfer pricing
- Does not affect subsequent years
- **In a normalized situation the effective tax rate would be around 35%**



LEVERAGE RATIO UNCHANGED

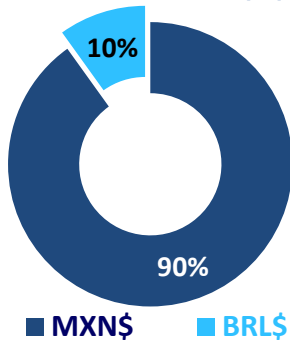
TOTAL DEBT AS OF SEPTEMBER 30, 2018

Total Debt: MXN \$27,448 million

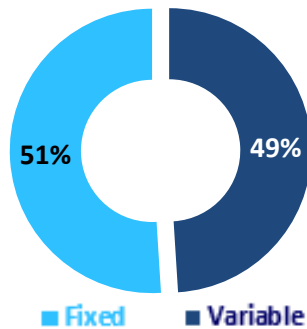
Net Debt / EBITDA: 3.1x

	Mexico	Brazil
Avg. Tenor	4.8 yrs	1.4 yrs
Avg. Cost	TIIE + 0.7%	CDI + 0.5%

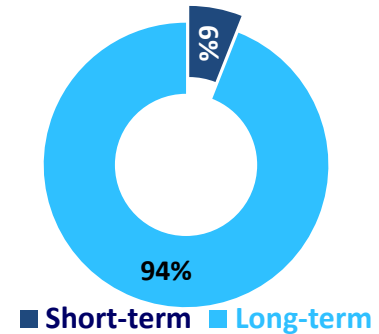
CURRENCY MIX (%)



RATE MIX (%)



MATURITY MIX (%)





CLOSING REMARKS

- 1.** Refocus on key markets: Mexico & Brazil
- 2.** Drive virtuous cycle and reverse the drags
- 3.** Revenue management and Innovation
- 4.** ZBB and Procurement to optimize cost
- 5.** Transform effort into financial results

A family of four is shown in a bright, modern kitchen. A woman in a grey t-shirt is leaning over a counter, smiling at a young girl with blonde hair who is eating. A young boy with blonde hair is sitting at the counter, looking towards the woman. A man in a blue t-shirt is standing behind the boy, looking down at him. On the counter, there is a carton of LALA entera milk, a glass of orange juice, and a bowl of cereal. The background shows a window with a view of a building.

Thank you

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